

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2017 / 2018 SESSION

DEC5018 – MICROECONOMICS

(Diploma Students Only)

8 MARCH 2018

9.00 am – 11.00 am

(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 12 pages with 3 sections.
2. For Section A, shade your answer on OMR sheet provided.
3. For Section B & C, write your answer in the answer booklet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS (each question carries 1 marks).**Answers for this section should be shaded on the OMR form.**

1. Scarcity requires that people must _____.
 - A. cooperate
 - B. compete
 - C. trade
 - D. make choices
2. A student should buy text books so he/she can do better in studies. This is an example of a _____.
 - A. normative statement
 - B. positive statement
 - C. microeconomic statement
 - D. macroeconomic statement
3. A reduction in the amount of unemployment is a situation that will _____.
 - A. moves the economy's point of production closer to the production possibilities frontier
 - B. shifts the production possibilities frontier outward
 - C. moves the economy's point of production along the production possibilities frontier
 - D. moves the economy's point of production further away from the production possibilities frontier
4. Which of the following is a macroeconomic study?
 - A. The price of oil.
 - B. How many television sets to produce?
 - C. The unemployment rate for the entire economy.
 - D. *The unemployment rate for each firm.*
5. Studying the determination of prices in individual markets is primarily a concern of _____.
 - A. positive economics
 - B. negative economics
 - C. microeconomics
 - D. macroeconomics

Continued...

6. A worker works at KFC is considered _____ and earns _____.
- A. labor; wages
 - B. entrepreneurship; profit
 - C. human capital; interest
 - D. labor; profit
7. By choosing to come to class, you know you are giving up the time to watch television. In doing so, you are applying the concept of _____.
- A. fail in decision making
 - B. opportunity cost
 - C. normative statement
 - D. positive statement

Point	Burgers (per hour)	Fried chickens (per hour)
A	50	0
B	40	30
C	25	45
D	0	55

Table 1

8. Table 1 above show Jasmine's Fast Food Restaurant production of burgers and fried chickens. Which of the following is **TRUE**?
- A. Production of 40 burgers and 40 fried chickens is considered attainable and efficient.
 - B. Production of 0 fried chickens and 50 burgers is considered unattainable and inefficient.
 - C. Production of 25 burgers and 45 fried chickens is considered attainable and efficient.
 - D. Production at Point D is considered not fully utilized the resources.
9. The quantity demanded is _____.
- A. always equal to the equilibrium quantity
 - B. independent of the price of the good
 - C. the amount of a good that consumers plan to purchase at a particular price
 - D. independent of consumers' buying plans
10. The "law of demand" most directly means that consumers buy _____.
- A. more of a good the higher their incomes
 - B. less of a good the higher its price while other things remain the same
 - C. buy more of a good the less is its supply
 - D. buy less of a good the greater is its supply

Continued...

11. When price of an apple increases from RM2 to RM3, the quantity demanded will decrease and this is because of _____.
- A. the substitution effect only
 - B. the income effect only
 - C. the substitution and income effects
 - D. a change in income
12. People buy more of good A when the price of good B rises. These goods are _____.
- A. complements
 - B. substitutes
 - C. normal goods
 - D. inferior goods
13. Which of the following shifts the supply curve for petrol rightward?
- A. A situation in which the quantity demanded exceeds the quantity supplied
 - B. An increase in the price of gasoline
 - C. An increase in the demand for gas-guzzling, sport utility vehicles
 - D. A decrease in the price of a resource used to produce gasoline, such as crude oil
14. A worker in Automotive Company negotiate a wage increase; how does this change affect the supply for cars?
- A. It decreases the supply.
 - B. It increases the supply.
 - C. It has no effect.
 - D. Both increase and decrease the supply.
15. A change in the price of a good _____.
- A. does not shift the good's demand curve but does cause a movement along it
 - B. shifts the good's demand curve and also causes a movement along it
 - C. shifts the good's demand curve but does not cause a movement along it
 - D. neither shifts the good's demand curve nor causes a movement along it
16. Which of the following conditions is **TRUE** with perfect competition?
- A. Attempts by each firm to make their product different from products produced by other firms reinforces competition between firms.
 - B. New firms must operate more efficiently in order to overcome the competitive advantage of existing firms.
 - C. Sellers and buyers are well informed about available quantity but not prices.
 - D. Firms in perfect competition practiced advertising for their products.

Continued...

17. Which of the following is a defining characteristic of a perfectly competitive industry?

- A. Have restrictions on entry into the industry.
- B. Advertisements by well-known celebrities.
- C. No restrictions on entry into the industry.
- D. Higher prices being charged for certain name brands.

Quantity sold of ice cream	Price
5	RM15
6	RM15
7	RM15

Table 2

18. In table 2 above, if the firm sells 5 units of ice cream, the total revenue is _____.

- A. RM75
- B. RM80
- C. RM85
- D. RM90

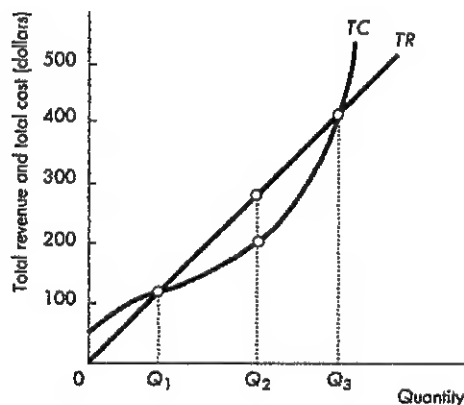


Figure 1

19. In figure 1, by increasing its output from Q_1 to Q_2 , the perfect competition firms _____.

- A. reduces its marginal revenue
- B. increases its marginal revenue
- C. increases its profit
- D. decreases its profit

Continued...

20. The costs incurred even when no output produced is called _____.
- A. variable costs
 - B. fixed costs
 - C. external costs
 - D. marginal costs
21. In perfect competition, the demand for the product of a single firm is _____.
- A. elastic
 - B. inelastic
 - C. perfectly inelastic
 - D. perfectly elastic
22. The firm's goal is to _____.
- A. maximize its economic profit
 - B. maximize its normal profit
 - C. maximize its total revenue
 - D. maximize its industry's revenue
23. Which of the following can create a monopoly?
- I. High prices.
 - II. Public franchise.
 - III. Patent.
 - IV. Government license.
- A. I and II.
 - B. I and III.
 - C. I, II and III.
 - D. II, III and IV
24. Firms that can price discriminate between customers do so to _____.
- A. increase consumer surplus
 - B. increase their profit
 - C. increase employment
 - D. decrease the quantity they produce
25. Which of the following is a characteristic of a single-price monopoly?
- A. The firm is a price taker.
 - B. Demand is perfectly elastic.
 - C. Price exceeds marginal revenue.
 - D. There are many close substitutes for the firm's product.

Continued...

Quantity (units)	Price (RM per unit)
4	16
5	14
6	12

Table 3

26. Table 3 above gives the demand for a monopolist's output. What is the marginal revenue of increasing production from 4 to 5 units?

- A. RM4
- B. RM5
- C. RM6
- D. RM7

27. A monopolist can earn an economic profit in the long run because of _____.

- A. barriers to entry prevent competing firms from entering the market
- B. they receive government subsidies
- C. they have high costs
- D. the risks of running a monopoly are high

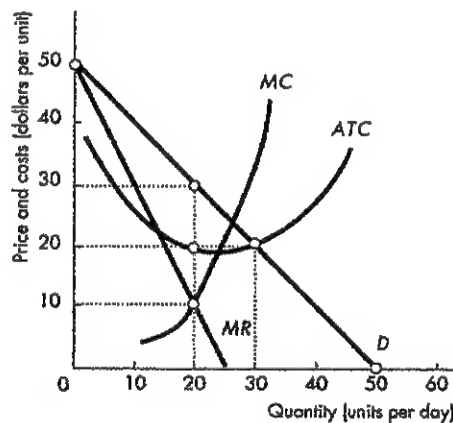


Figure 2

28. Figure 2 above shows the demand and cost curves for a single-price monopoly. What level of output maximizes the firm's economic profit?

- A. 50 units.
- B. 40 units.
- C. 30 units.
- D. 20 units.

Continued...

29. Monopolistic competition is a market structure in which _____.
- A. each firm produces an identical product
 - B. a large number of firms compete
 - C. firms only compete on product price
 - D. there are barriers to entry.
30. The key feature of monopolistic competition that makes it **DIFFERENT** from perfect competition is _____.
- A. many sellers
 - B. barriers to entry
 - C. product differentiation
 - D. interdependency
31. Monopolistic competition differs from monopoly because in monopolistic competition _____.
- A. there are no close substitutes for each firm's product
 - B. the firms compete only on price
 - C. high barriers to entry
 - D. there are many firms
32. A product that is a close substitute but not a perfect substitute for the products of the other firms is called _____.
- A. a differentiated product
 - B. an efficient product
 - C. an inelastic product
 - D. a homogeneous product
33. In monopolistic competition, each firm has a demand curve with a _____ and there _____ barriers to entry into the market.
- A. slope equal to zero; are no
 - B. negative slope; are
 - C. slope equal to zero; are
 - D. negative slope; are no
34. A monopolistically competitive firm will always choose to produce where _____.
- A. marginal cost meets the demand curve
 - B. average total cost meets the demand curve
 - C. marginal revenue equals marginal cost
 - D. average total cost is minimized

Continued...

35. In the long run, a firm in a monopolistically competitive industry produces where its marginal cost _____.
- A. equals its average cost
 - B. exceeds its average cost
 - C. is less than its average cost
 - D. equals its price
36. A firm's markup is the amount by which _____ exceeds _____.
- A. price; average total cost
 - B. price; marginal cost
 - C. average total cost; marginal cost
 - D. price; average variable cost
37. When only a small number of producers compete with each other is a defining characteristic of _____.
- A. inelastic supply
 - B. oligopoly
 - C. monopolistic competition
 - D. efficient competition
38. Natural oligopoly can form _____.
- A. if there are economies of scale
 - B. only if firms sell a differentiated good
 - C. only if firms sell a homogeneous good
 - D. if there is only one firm in the industry
39. In _____ market structure, a firm's output depends _____.
- A. an oligopoly; only on its own marginal revenue and marginal cost curves
 - B. a monopolistically competitive; in part on its competitors' price and quantity decisions
 - C. a monopolistically competitive; only on its marginal revenue curve
 - D. an oligopoly; in part on its competitors' price and quantity decisions
40. A cartel is a group of firms which agree to _____.
- A. behave competitively
 - B. raise the price of their product
 - C. lower the price of their product
 - D. increase the amount they produce

[TOTAL 40 MARKS]

Continued...

SECTION B: CASE STUDY ANALYSIS.

Answer ALL questions. Answers should be written on the answer booklet provided.

Water scarcity getting serious

We need to recognize that Malaysia has its own wet and dry season. If we stick to our wasteful habits even in the dry season, we would then face water supply problems. Four billion people around the world face water scarcity problems, which is more than half of the world.

Water scarcity problems are becoming more and more serious due to pollution and climate change, so we can no longer afford to stick to our current wasteful habits. Habits may be hard to change immediately, but you can always start with the smallest efforts such as turning off the tap while you brush your teeth or apply soap.

Free Malaysia Today, 16 February 2016

QUESTION 1

Based on the article, answer the following questions:

- i. What is the problem that Malaysia is seriously facing now? (1 mark)
- ii. Define scarcity. (2 marks)

QUESTION 2

From the article above, list **TWO** reasons why water scarcity problems are becoming more serious. (2 marks)

QUESTION 3

Based on the article, briefly explain smallest efforts can be practice by us to change our habits on wasting water supply. (2 marks)

QUESTION 4

List **THREE** big economic questions that cover the scope of economics. (3 marks)

[TOTAL 10 MARKS]

Continued...

SECTION C: STRUCTURED QUESTIONS**Answer ALL questions. Answers should be written on the answer booklet provided.****QUESTION 1**

Point	Production of good X	Production of good Y
A	0	40
B	4	36
C	12	28
D	16	16
E	24	0

Table 4

- (a) Based on table 4 above, plot the production possibility frontier (PPF) for the production of good X and good Y. (4 marks)
- (b) Identify how much is the opportunity cost to produce **ONE** single good X if the company is producing from point B to C. (2 marks)
- (c) Briefly explain **TWO** main factors that can increase economic growth. (4 marks)
- (d) What would happen to the PPF curve for production of Good Y if there is an increase in the resources? (2 marks)

QUESTION 2

Price (dollars per pair)	Quantity demanded (pairs per week)	Quantity supplied (pairs per week)
30	130	70
40	120	80
50	110	90
60	100	100
70	90	110
80	80	120
90	70	130

Table 5

- (a) Based on table 5 above, plot the demand and supply curve for pair of shoes in the same diagram. (4 marks)
- (b) Identify the equilibrium price and quantity for pair of shoes. (2 marks)

Continued...

(c) Based on table 5, answer the following questions.

i. Name and calculate the situation if the price of pair of shoes is at RM40. (2 marks)

ii. Name and calculate the situation when the price of pair of shoes is at RM90 (2 marks)

(d) Explain what would happen to the demand curve if there is an increase in population and why? (2 marks)

QUESTION 3

(a) In perfect competition, they are considered as a price taker. Briefly explain what is the meaning of price taker. (2 marks)

(b) In perfect competition, there are **THREE** possible profit. Briefly explain each one of them. (6 marks)

(c) Discuss why does the demand under perfect competition market is perfectly elastic? (2 marks)

(d) When will perfect competition business exit the industry? (1 mark)

Continued...

QUESTION 4

- (a) Define monopoly and list any **TWO** main features for this market structure. (4 marks)
- (b) Briefly explain natural and ownership barriers. (4 marks)
- (c) *In monopolistic competition, to keep making an economic profit, a firm must be in a state of continuous product development.*
Briefly explain why they need to apply continuous development. (2 marks)
- (d) Answer the following questions:
- i. Which market structure apply game theory in their business strategies? (1 mark)
 - ii. List **FOUR** common features of game theory. (4 marks)

[TOTAL 50 MARKS]**End of Page.**